



**STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY  
OFFICE OF STATE AND LOCAL FINANCE  
SUITE 1600 JAMES K. POLK STATE OFFICE BUILDING  
505 DEADERICK STREET  
NASHVILLE, TENNESSEE 37243-1402  
PHONE (615) 401-7872  
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February 10, 2015

The Honorable Mayor and City Council  
City of Memphis  
125 North Main, RM 368  
Memphis, TN 38103-2017

Dear Mayor Wharton and Councilmembers:

This letter and report including the plan of refunding (the "Plan") are to be published and placed on the City's website prior to the meeting of the City Council adopting the refunding bond resolution. The same letter and report for the Plan is to be provided to each member of the City Council for review at the Public Meeting adopting the refunding bond resolution.

This letter acknowledges receipt of a request on February 4, 2015, from the City of Memphis (the "City"), to review a Plan for the proposed issuance of an amount not to exceed \$235,000,000 General Improvement Refunding Bonds, Series 2015 (the "Series 2015 Refunding Bonds").

Pursuant to the provisions of Title 9, Chapter 21 of Tennessee Code Annotated a plan of refunding must be submitted to our Office for review prior to the adoption of a resolution by the governing body of a local government authorizing the issuance of refunding bonds secured, in whole or in part, by the full faith and credit and unlimited taxing power of the City. The information presented in the plan of refunding includes the assertions of the City and may not reflect either the City's current or future financial condition or current market conditions at the time of sale.

The City of Memphis is taking steps to manage the financial concerns created by past decisions. The City should consider its future needs as it manages these concerns. Its future progress requires it to manage both its long-term obligations (debt service and other long-term liabilities such as pensions) and operations within its revenue stream.

**THE CITY'S PROPOSED REFUNDING OBJECTIVE**

The City stated in its Plan: "The purposes of the advance refunding are to achieve present value savings and to restructure a portion of the outstanding debt. The City's debt is being restructured to provide debt relief in fiscal years 2015 to 2023 that is needed to help offset even larger increases in its annual pension costs during that period."

## **PLAN OF REFUNDING**

The City intends to sell by negotiation:

- \$75,430,000 General Improvement Refunding Bonds, Series 2015A (Tax-Exempt) (the “Series 2015A Refunding Bonds”) priced at an estimated premium of \$18,625,927 to advance refund:
  - \$2,530,000 of the General Improvement Bonds, Series 2006A (the “Series 2006A Bonds”);
  - \$42,925,000 of the General Improvement Bonds, Series 2008 (the “Series 2008 Bonds”);
  - \$20,360,000 of the General Improvement Bonds, Series 2009 (the “Series 2009 Bonds”);
  - \$4,090,000 of the General Improvement Bonds, Series 2010A (the “Series 2010A Bonds”);
  - \$5,830,000 of the General Improvement and Refunding Bonds, Series 2011 (the “Series 2011 Bonds”); and
  - \$7,320,000 of the General Improvement and Refunding Bonds, Series 2014B (the “Series 2014A Bonds”).

Collectively, these are the “Tax-Exempt Refunded Bonds.” The total amount of refunded principal is \$83,055,000.

- \$54,600,000 General Improvement Refunding Bonds, Series 2015B (Taxable) (the “Series 2015B Refunding Bonds”) priced at par to advance refund:
  - \$9,795,000 of the General Improvement Refunding Bonds, Series 2005 (the “Series 2005 Bonds”);
  - \$37,525,000 of the General Improvement Refunding Bonds, Series 2006C (the “Series 2006C Bonds”); and
  - \$3,635,000 of the General Improvement and Refunding Bonds, Series 2010E (Taxable) (the “Series 2010E Bonds”).

Collectively, these are the “Taxable Refunded Bonds.” The total amount of refunded principal is \$50,955,000.

Collectively, the Tax-Exempt Refunded Bonds and Taxable Refunded Bonds are the “Refunded Bonds.” The total amount of refunded principal is \$134,010,000.

The Series 2015A Refunding Bonds and Series 2015B Refunding Bonds are the “Refunding Bonds.” Total principal anticipated to be issued is \$130,030,000.

In addition to the Refunded Bonds, the City is converting \$75,000,000 of short-term bond anticipation notes (the “BANs”) structured as commercial paper to \$63,425,000 of long-term general obligation bonds sold by negotiation priced at an estimated premium of \$12,207,869 as part of the Series 2015 Refunding Bonds issue.

## **PRIVATE NEGOTIATED SALE APPROVAL**

The approval of the Office of State and Local Finance is required when a municipality desires to sell refunding General Obligation bonds through a negotiated sale process. The City has requested approval to sell the Refunding Bonds through negotiated sale. This letter constitutes approval to negotiate the sale of the Refunding Bonds, conditioned upon the requirement that the bonds are sold with the debt service payment schedule having the same principal repayment schedule as presented in the plan or the principal repayment schedule is accelerated.

## **BALLOON INDEBTEDNESS**

The City determined the structure of the Refunding Bonds presented in the refunding plan is balloon indebtedness. The City submitted a separate request for approval of a plan of balloon indebtedness in



conjunction with its request for the review of a refunding plan. Approval of the Director of the Office of State and Local Finance is required prior to the City adopting the resolution authorizing the issuance of balloon indebtedness.

The City's plan of balloon indebtedness was approved in a separate letter dated February 10, 2015.

## **COMPLIANCE WITH THE CITY'S DEBT MANAGEMENT POLICY**

The City provided a copy of its debt management policy, and within forty-five days (45) of issuance of the debt approved in this letter, is required to submit a Report on Debt Obligation that indicates that this debt complies with its debt policy. If the City amends its policy, please submit the amended policy to this office.

## **FINANCIAL PROFESSIONALS**

The City has reported First Southwest Company as its municipal advisor. Municipal advisors have a fiduciary responsibility to the City. Underwriters have no fiduciary responsibility to the City. They represent the interests of their firm and are not required to act in the City's best interest without regard to their own or other interests. The Plan was prepared by the City with the assistance of its municipal advisor.

## **MSRB Rule G-17**

MSRB Rule G-17 requires underwriters and municipal advisors to deal fairly with the City in the conduct of its municipal securities or municipal advisory activities. MSRB Notice 2012-25 on the duties of underwriters to issuers of municipal securities was approved by the Securities and Exchange Commission on May 4, 2012. On August 2, 2012, this interpretive notice to MSRB Rule G-17 on fair dealing became part of federal securities law and underwriters are required to comply with its provisions.

These duties fall into three areas:

- statements and representations to issuers;
- disclosures to issuers; and
- financial aspects of underwriting transactions.

To learn more about the obligations of the City's underwriter (if applicable) and municipal advisor, please read the information posted on the MSRB website: [www.msrb.org](http://www.msrb.org).

## **REPORT OF THE REVIEW OF THE PLAN OF REFUNDING**

Enclosed is the report of the review of the plan of refunding required by T.C.A. § 9-21-903 for distribution to the members of the City Council.

**The enclosed report does not constitute approval or disapproval for the proposed Plan or a determination that a refunding is advantageous or necessary nor that any of the outstanding obligations should be called for redemption on the first or any subsequent available redemption date or remain outstanding until their respective dates of maturity.**

**This letter and the enclosed report do not address the compliance with federal tax regulations and are not to be relied upon for that purpose. The City should discuss these issues with a bond counsel or tax attorney.**

*Each report is effective for a period of one hundred and twenty (120) days. If the refunding has not been completed during this time, a supplemental plan of refunding must be submitted to this Office, at that time we will issue a report thereon pursuant to the statutes. In lieu of submitting a supplemental plan, a statement may be submitted to our Office after the 120-day period has elapsed stating that the information contained in the current plan of refunding remains valid. Such statement must be submitted by either the Chief Executive Officer*

or the Chief Financial Officer of the local government. We will acknowledge receipt of such statement and will issue our letter confirming that this refunding report remains valid for an additional 120-day period. However, with regard to the report currently being issued by this Office, during the initial 120-day period or any subsequent 120-day period no refunding reports will be issued relating to the debt obligations indicated herein as being refunded unless the Chief Executive Officer or the Chief Financial Officer notifies our Office that the plan of refunding which has been submitted is no longer valid.

We recognize that the information provided in the Plan submitted to our Office is based on preliminary analysis and estimates, and that actual results will be determined by market conditions at the time of sale of the debt obligations. However, if it is determined prior to the issuance of these obligations that the actual results will be significantly different from the information provided in the plan which has been submitted, and the local government determines to proceed with the issue, our Office should subsequently be notified by either the Chief Executive Officer or the Chief Financial Officer of the local government regarding these differences, and that the local government was aware of the differences and determined to proceed with the issuance of the debt obligations. Notification to our Office will be necessary only if there is an increase or decrease of greater than fifteen percent (15%) in any of the following: (1) the principal amount of the debt obligations issued; (2) the costs of issuance; (3) the cumulative savings or loss with regard to any refunding proposal. We consider this notification necessary to insure that this Office and officials of the local government are aware of any significant changes that occur with regard to the issuance of the proposed indebtedness.

## REPORT ON DEBT OBLIGATION

We are enclosing State Form CT-0253, Report on Debt Obligation. Pursuant to T.C.A. § 9-21-151, this form is to be completed and filed with the governing body of the City no later than forty-five (45) days after the issuance of this debt, with a copy (including attachments, if any) filed with the Director of the Office of State and Local Finance by mail to the address on this letterhead or by email to [stateandlocalfinance.publicdebtform@cot.tn.gov](mailto:stateandlocalfinance.publicdebtform@cot.tn.gov). No public entity may enter into additional debt if it has failed to file the Report on Debt Obligation. A fillable PDF of Form CT-0253 can be found at <http://www.comptroller.tn.gov/sl/pubdebt.asp>.

Sincerely,



Sandra Thompson  
Director of the Office of State & Local Finance

Cc: Mr. Jim Arnette, Director of Local Government Audit, COT  
Mr. Andre D. Walker, Deputy Director of Finance, City of Memphis

Enclosures (2): Report of the Director of the Office of State & Local Finance  
State Form CT-0253, Report on Debt Obligation



**REPORT OF THE DIRECTOR OF THE OFFICE OF STATE AND LOCAL FINANCE  
CONCERNING THE PROPOSED ISSUANCE OF  
GENERAL IMPROVEMENT REFUNDING BONDS, SERIES 2015  
CITY OF MEMPHIS, TENNESSEE**

The City of Memphis, Tennessee (“the City”) submitted a plan of refunding (the “Plan”) as required by Tenn. Code Ann. § 9-21-903 regarding the proposed issuance of an amount not to exceed \$235,000,000 General Improvement Refunding Bonds, Series 2015 (the “Series 2015 Refunding Bonds”) by negotiation.

The Plan was prepared with the assistance of the City’s municipal advisor, First Southwest Company. The actual Series 2015 Refunding Bonds may be structured differently than proposed in the Plan being sold at par, at a discount or with a different principal repayment schedule. The information presented in the Plan includes the assertions of the City and may not reflect either the City’s current or future financial condition or current market conditions or market conditions at the time of sale.

**THE CITY’S PROPOSED REFUNDING OBJECTIVE**

The City stated in its Plan: “The purposes of the advance refunding are to achieve present value savings and to restructure a portion of the outstanding debt. The City’s debt is being restructured to provide debt relief in Fiscal years 2015 to 2023 that is needed to help offset even larger increases in Pension ADC during that period.”

**PLAN OF REFUNDING**

The Series 2015 Refunding Bonds will be issued in three series, General Improvement Refunding Bonds, Series 2015A (Tax-Exempt) (the “Series 2015A Refunding Bonds”) and the General Improvement Refunding Bonds, Series 2015B (Taxable) (the “Series 2015B Refunding Bonds”) and the General Improvement Refunding Bonds, Series 2015C (the “Series 2015C Refunding Bonds”). The Series 2015C Refunding Bonds are being issued to convert bond anticipation notes structured as commercial paper to long-term financing structured as general obligation bonds. This report only addresses the advance refunding and does not address the bond anticipation note conversion.

- \$75,430,000 the Series 2015A Refunding Bonds priced at an estimated premium of \$18,625,927 to advance refund:
  - \$2,530,000 of the General Improvement Bonds, Series 2006A (the “Series 2006A Bonds”);
  - \$42,925,000 of the General Improvement Bonds, Series 2008 (the “Series 2008 Bonds”);
  - \$20,360,000 of the General Improvement Bonds, Series 2009 (the “Series 2009 Bonds”);
  - \$4,090,000 of the General Improvement Bonds, Series 2010A (the “Series 2010A Bonds”);
  - \$5,830,000 of the General Improvement and Refunding Bonds, Series 2011 (the “Series 2011 Bonds”); and
  - \$7,320,000 of the General Improvement and Refunding Bonds, Series 2014B (the “Series 2014A Bonds”).

These are the “Tax-Exempt Refunded Bonds.” The total amount of refunded principal is \$83,055,000.

- \$54,600,000 the Series 2015B Refunding Bonds priced at par to advance refund:
  - \$9,795,000 of the General Improvement Refunding Bonds, Series 2005 (the “Series 2005 Bonds”);
  - \$37,525,000 of the General Improvement Refunding Bonds, Series 2006C (the “Series 2006C Bonds”); and
  - \$3,635,000 of the General Improvement and Refunding Bonds, Series 2010E (Taxable) (the “Series 2010E Bonds”).

These are the “Taxable Refunded Bonds.” The total amount of refunded principal is \$50,955,000.

Collectively, the Tax-Exempt Refunded Bonds and Taxable Refunded Bonds are the ‘Refunded Bonds.’ The total amount of refunded principal is \$134,010,000.

The Series 2015A Refunding Bonds and Series 2015B Refunding Bonds are the “Refunding Bonds.” Total principal anticipated to be issued is \$130,030,000.



In addition to the Refunded Bonds, the City is converting \$75,000,000 of short-term bond anticipation notes (the "BANs") structured as commercial paper to \$63,425,000 of long-term general obligation bonds and priced at an estimated premium of \$12,207,869 as part of the Series 2015 Refunding Bonds issue.

## REFUNDING ANALYSIS

### General Improvement Refunding Bonds, Series 2015A (Tax-Exempt)

- The Series 2015A Refunding Bonds are intended to be sold with a premium coupon of 5%. An estimated premium of \$18,625,927 is expected to be generated by selling the Series 2015A Refunding Bonds with coupon rates above the projected bond yields at the time of sale. The City is contributing \$1,845,394 from debt service funds. See Table 1 in the Exhibit for Sources and Uses.
- This refunding reduces annual debt service payments in the targeted period of fiscal years 2015 through 2023, except for an increase in debt service payments of \$110,688 in fiscal year 2017. The majority of the decrease occurs in fiscal years 2019 through 2023.
- This reduction during the targeted period is achieved at the cost of shifting all principal payments to fiscal years 2025 and 2026, increasing total debt service by \$8,066,026, and extending the final maturity of the Series 2015A Refunding Bonds by one (1) year after the final maturity of the Tax-Exempt Refunded Bonds. See Table 3 in the attached Exhibit.
- Estimated costs of issuance are \$722,320 or \$9.58 per \$1,000 of par amount for the Series 2015A Refunding Bonds. See Table 2 for individual costs of issuance.

### General Improvement Refunding Bonds, Series 2015B (Taxable)

- The Series 2015B Refunding Bonds are intended to be sold at par with a contribution from debt service funds of \$1,056,680. See Table 1 in the Exhibit for Sources and Uses.
- Total debt service is increased by \$4,073,294 from total debt service of \$64,742,025 for the Taxable Refunded Bonds to \$68,319 for the proposed Series 2015B Refunding Bonds.
- This refunding reduces annual debt service payments in the targeted period of fiscal years 2015 through 2023, See Table 4 in the attached Exhibit.
- This reduction during the targeted period is achieved at the cost of shifting all principal payments to fiscal years 2023 through 2025, increasing total debt service by \$4,073,294, and extending the final maturity of the Series 2015A Refunding Bonds by two (2) years after the final maturity of the Taxable Refunded Bonds. See Table 4 in the attached Exhibit.
- Estimated costs of issuance are \$494,139 or \$9.05 per \$1,000 of par amount for the Series 2015B Refunding Bonds. See Table 2 for individual costs of issuance.

**The City has identified First Southwest Company as its municipal advisor. Municipal advisors have a fiduciary responsibility to you, the issuer. Underwriters have no fiduciary responsibility to you. They represent the interests of their firm.**

**This report of the Office of State and Local Finance does not constitute approval or disapproval by the Office for the proposed plan or a determination that a refunding is advantageous or necessary nor that any of the Refunded Bonds should be called for redemption on the first or any subsequent available redemption date or remain outstanding until their respective dates of maturity. This report is based on information as presented in the Plan by the City. The assumptions included in the City's Plan may not reflect either current market conditions or market conditions at the time of sale.**

**If all of the Refunded Bonds are not refunded as a part of the Series 2014 Refunding Bonds, then a new plan must be submitted to this Office for review of a plan of refunding for the residual bonds.**



Sandra Thompson  
Director of the Office of State and Local Finance  
Date: February 10, 2015

# Exhibit

**Table 1**  
**City of Memphis**  
**Sources and Uses of Funds**  
**General Improvement Refunding Bonds, Series 2015**

<b>Sources:</b>	<b>Series 2015A Bonds</b>	<b>Series 2015B Bonds</b>
Par Amount of Bonds	\$ 75,430,000.00	\$ 54,600,000.00
Premium	18,625,926.50	-
Debt Service Fund Contribution	1,845,393.75	1,056,680.02
<b>Total Sources</b>	<b>\$ 95,901,320.25</b>	<b>\$ 55,656,680.02</b>
<b>Uses:</b>		
Refunding Escrow Deposit	\$ 95,179,143.33	\$ 55,160,631.77
Underwriter's Discount	444,453.42	293,005.08
Cost of Issuance	277,723.50	201,276.50
Rounding Amount		1,766.67
<b>Total Uses</b>	<b>\$ 95,901,320.25</b>	<b>\$ 55,656,680.02</b>

**Table 2**  
**City of Memphis**  
**Costs of Issuance of Refunding Bonds**

	<b>Series 2015A Bonds</b>		<b>Series 2015B Bonds</b>	
	<b>Amount</b>	<b>Price per \$1,000 bond</b>	<b>Amount</b>	<b>Price per \$1,000 bond</b>
Underwriter (To Be Determined)	\$444,453.42	\$ 5.89	\$293,005.08	\$ 5.37
Municipal/Financial Advisors (First Southwest, Community Capital)	92,815.50	1.23	67,184.50	1.23
Bond Counsel (Hawkins Delafield & Wood LLP)	57,429.59	0.76	41,570.41	0.76
Disclosure Counsel (Greenberg Traurig, P.A)	34,805.81	0.46	25,194.19	0.46
Rating Agencies Fees (Moody's, S&P)	75,412.50	1.00	54,587.40	1.00
Other Costs	17,402.89	0.23	12,597.11	0.23
<b>Total Cost of Issuance</b>	<b>\$722,319.71</b>	<b>\$ 9.58</b>	<b>\$494,138.69</b>	<b>\$ 9.05</b>



**Table 3**  
**City of Memphis**  
**General Improvement Refunding Bonds, Series 2015A (Tax-Exempt)**  
**Refunding Analysis**

YR	FY	<u>Refunding Bonds</u>			<u>Refunded Bonds</u>			FY
		Principal	Interest	Total	Principal	Interest	Total	Debt Service Savings
1	2015	\$ -	\$ -	\$ -		\$ 48,262.50	\$ 48,262.50	\$ 48,262.50
2	2016	-	3,781,976.39	3,781,976.39	2,530,000.00	3,724,062.50	6,254,062.50	2,472,086.11
3	2017	-	3,771,500.00	3,771,500.00	-	3,660,812.50	3,660,812.50	(110,687.50)
4	2018	-	3,771,500.00	3,771,500.00	115,000.00	3,660,812.50	3,775,812.50	4,312.50
5	2019	-	3,771,500.00	3,771,500.00	13,615,000.00	3,656,212.50	17,271,212.50	13,499,712.50
6	2020	-	3,771,500.00	3,771,500.00	17,650,000.00	3,068,762.50	20,718,762.50	16,947,262.50
7	2021	-	3,771,500.00	3,771,500.00	10,255,000.00	2,300,962.50	12,555,962.50	8,784,462.50
8	2022	-	3,771,500.00	3,771,500.00	14,175,000.00	1,846,612.50	16,021,612.50	12,250,112.50
9	2023	-	3,771,500.00	3,771,500.00	11,040,000.00	1,141,912.50	12,181,912.50	8,410,412.50
10	2024	-	3,771,500.00	3,771,500.00	6,695,000.00	589,912.50	7,284,912.50	3,513,412.50
11	2025	24,045,000.00	3,771,500.00	27,816,500.00	6,980,000.00	305,375.00	7,285,375.00	(20,531,125.00)
12	2026	51,385,000.00	2,569,250.00	53,954,250.00	-	-	-	(53,954,250.00)
		\$ 75,430,000.00	\$ 40,294,726.39	\$ 115,724,726.39	\$ 83,055,000.00	\$ 24,003,700.00	\$ 107,058,700.00	\$ (8,666,026.39)

Per \$1,000 of			
Interest Cost	Gross Loss	Cost of Issuance	Bond Par Value
\$ (16,291,026.39)	\$ (8,666,026.39)	\$ 722,319.81	\$ 9.58

**Table 4**  
**City of Memphis**  
**General Improvement Refunding Bonds, Series 2015B (Taxable)**  
**Refunding Analysis**

YR	FY	<u>Refunding Bonds</u>			<u>Refunded Bonds</u>			FY
		Principal	Interest	Total	Principal	Interest	Total	Debt Service Savings
1	2015	\$ -	\$ -	\$ -	\$ -	\$ 126,319.98	\$ 126,319.98	\$ 126,319.98
2	2016	-	1,511,517.03	1,511,517.03	-	2,486,136.76	2,486,136.76	974,619.73
3	2017	-	1,507,330.00	1,507,330.00	3,635,000.00	2,426,068.38	6,061,068.38	4,553,738.38
4	2018	-	1,507,330.00	1,507,330.00	9,795,000.00	2,121,125.00	11,916,125.00	10,408,795.00
5	2019	-	1,507,330.00	1,507,330.00	-	1,876,250.00	1,876,250.00	368,920.00
6	2020	-	1,507,330.00	1,507,330.00	-	1,876,250.00	1,876,250.00	368,920.00
7	2021	-	1,507,330.00	1,507,330.00	11,905,000.00	1,578,625.00	13,483,625.00	11,976,295.00
8	2022	-	1,507,330.00	1,507,330.00	12,505,000.00	968,375.00	13,473,375.00	11,966,045.00
9	2023	9,420,000.00	1,507,330.00	10,927,330.00	13,115,000.00	327,875.00	13,442,875.00	2,515,545.00
10	2024	13,550,000.00	1,260,526.00	14,810,526.00	-	-	-	(14,810,526.00)
11	2025	31,630,000.00	891,966.00	32,521,966.00	-	-	-	(32,521,966.00)
		\$ 54,600,000.00	\$ 14,215,319.03	\$ 68,815,319.03	\$ 50,955,000.00	\$ 13,787,025.12	\$ 64,742,025.12	\$ (4,073,293.91)

Per \$1,000 of			
Interest Cost	Gross Loss	Cost of Issuance	Bond Par Value
\$ (428,293.91)	\$ (4,073,293.91)	\$ 494,138.69	\$ 9.05